

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayner  
Marshall Johnson  
Ken Nickolai  
Thomas Pugh  
Phyllis A. Reha

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of an Application by Northern  
States Power Company d/b/a Xcel Energy for  
Authority to Increase Rates for Natural Gas  
Service in the State of Minnesota

ISSUE DATE: November 16, 2004

DOCKET NO. G-002/GR-04-1511

ORDER SETTING INTERIM RATES

**PROCEDURAL HISTORY**

On September 17, 2004, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) filed a general rate case seeking an annual rate increase of \$9.9 million, or approximately 1.7%. Under Minn. Stat. § 216B.16, subd. 3, the Commission must order an interim rate schedule into effect within 60 days from the filing of a general rate case, unless the Commission allows the proposed rates to go into effect. The Company included proposed interim rate schedules in its September 17 filing and requested that interim rates go into effect on December 1, explaining that an earlier effective date would pose administrative difficulties for the Company.

On September 21, 2004, the Commission issued a notice to potentially interested parties requesting comments on whether the Commission should accept the filing as substantially complete and whether it should refer the case to the Office of Administrative Hearings for contested case proceedings.

On September 29, 2004, the Minnesota Department of Commerce (the Department) filed comments that recommended accepting the filing as complete and referring the case for contested case proceedings. On October 18, 2004, the Department filed comments revising that recommendation in light of its review of the Company's new base cost of gas petition, filed in conjunction with its petition for interim rates.

The Department stated that its review of the base cost of gas petition, filed in docket G-002/MR-04-1544, revealed a discrepancy between the gas costs used in calculating the base cost of gas in that docket and the gas costs used in the general rate case filing. The agency recommended finding the rate case filing incomplete until the Company had filed testimony, schedules, and work papers correcting this discrepancy.

On October 21, 2004, the Residential and Small Business Utilities Division of the Office of the Attorney General filed comments concurring in the Department's revised recommendation.

On October 22, 2004, the Company filed revised testimony, rate schedules, and work papers correcting the discrepancy. The Company also stated that it did not object to treating October 22 as the date on which the filing became substantially complete, but it urged the Commission to honor its original request that interim rates go into effect on December 1.

On October 27, 2004, the Department filed a letter recommending that the Commission accept the rate case filing as substantially complete as of October 22, 2004.

On November 4, 2004, the rate case filing, including the interim rates petition, came before the Commission. The Commission accepted the filing as substantially complete as of October 22, suspended the proposed final rates pending completion of the case, referred the case for contested case proceedings, and set interim rates as set forth below.<sup>1</sup>

## **FINDINGS AND CONCLUSIONS**

### **I. The Legal Standard**

Under Minn. Stat. § 216B.16, subd. 3, interim rates are established in expedited proceedings conducted ex parte. Except under exigent circumstances, the following principles control.

Interim rates are based on the proposed test year cost of capital, the proposed test year rate base, and proposed test year expenses. They are calculated using existing rate design and the rate of return on common equity authorized in the company's last general rate case. Only rate base and expense items similar in nature and kind to those allowed under the company's last general rate case Order can be included in interim rate calculations.

Interim rates are collected subject to true-up. If the company collects more in interim rates than it would have collected in final rates, it refunds the difference to ratepayers. If it collects less, it can recover the difference, but only for the time period between the final determination in the rate case and the date on which final rates go into effect.<sup>2</sup>

### **II. Commission Action**

The Commission has examined the Company's interim rates proposal and finds that, with three exceptions, the proposal as filed conforms with the requirements of the interim rates statute. The first exception stems from the discrepancy between the cost of gas used in the Company's new base cost of gas filing (docket G-002/MR-04-1544) and the cost of gas used in the rate case filing, including the interim rates proposal. The Company's supplemental filing corrected this discrepancy by increasing both interim test year revenues and the cost of gas by \$6,701,000. With this correction, the proposal conforms with the statute as to that issue.

The second exception is the proposal's deviation from the treatment of rate case expenses in the last rate case. In the last rate case, 8% of rate case expenses were allocated to non-jurisdictional businesses, and total rate case expenses were amortized over five years.<sup>3</sup> In this rate case, the

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<sup>1</sup> See Order Accepting Rate Case Filing and Suspending Rates, this docket, and Notice and Order for Hearing, this docket, both issued November 12, 2004.

<sup>2</sup> Minn. Stat. § 216B.16, subd. 3.

<sup>3</sup> *In the Matter of the Application of Northern States Power Company's Gas Utility to Change its Schedule of Gas Rates for Retail Customers Within the State of Minnesota*, Docket No. G-002/GR-97-1606, Findings of Fact, Conclusions of Law, and Order (September 30, 1998).

Company proposes to allocate no portion of rate case expenses to non-jurisdictional businesses and proposes to amortize rate case expenses over three years.

The Commission finds that the statutory provision limiting interim rate recovery to expense and rate base items “the same in nature and kind”<sup>4</sup> as those allowed in the last rate case limits interim rate recovery in this case to 92% of rate case expenses, amortized over five years. The Commission will require the Company to recalculate interim rates making that adjustment.

The third exception relates to the methodologies used by the Company to allocate costs between its Minnesota natural gas operations and its other operations, including those in other states and those not subject to regulation. Because the Company has completed a major merger since its last rate case, the allocation methodologies used in that case no longer yield accurate results. Instead, the Company has developed and used new allocation methodologies, which are explained in detail in its general rate case filing.

The Commission finds under Minn. Stat. § 216B.16, subd. 3 (b) that exigent circumstances exist in this case and justify the use of allocation methodologies different from those used in the Company’s last rate case. The Company’s organizational structure has changed significantly, making the old allocation methodologies essentially invalid and unuseable. The public interest clearly requires the use of new methodologies.

The new allocation methodologies developed by the Company will be carefully scrutinized in the course of the general rate case. In the mean time, they fall within the zone of regulatory reasonableness required for their use in calculating refundable, interim rates.

Finally, the Commission notes that, while the Company’s original proposal for apportioning the interim rate increase between and within customer classes complied with past practice as approved by the Commission, its original proposal for noting the interim rate increase on customer bills did not. In discussions with Commission staff the Company revised its proposal to include placing a single, line-item interim rate adjustment on customer bills, as it had in previous rate cases. The Commission concurs that this straightforward treatment of the rate increase on customer bills serves the public interest and should be approved.

With these adjustments, the Commission will approve the Company’s interim rates proposal and authorize the collection of interim rates for service rendered on and after December 1, 2004. This results in a total annualized interim rate increase of \$6,423,000.

The Company will be required to promptly file revised interim rate schedules reflecting the two corrections, to provide a Commission-approved notice of interim rates to customers, and to keep the records necessary to implement any refund ordered at the conclusion of the case.

The Commission will so order.

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<sup>4</sup> Minn. Stat. § 216B.16, subd. 3 (b) (2).

## **ORDER**

1. The interim rates proposal filed by Northern States Power Company d/b/a Xcel Energy is hereby approved, subject to the offsetting increases to interim test year revenues and gas costs discussed above, and subject to the \$178,000 reduction in test year rate case expense discussed above. The Company is authorized to put this rate increase into effect for service rendered on and after December 1, 2004.
2. The Company shall promptly file revised interim rate schedules, interim rates tariff sheets, and supporting documentation reflecting the rate impact of the changes to its interim rates proposal set forth in the preceding paragraph.
3. The Company shall promptly file for review by the Executive Secretary a proposed notice to customers regarding the rate change under the interim rate schedule.
4. The Company shall include with each customer's first bill under the interim rate schedule a notice of the rate change, approved by the Executive Secretary. The Company shall make a filing certifying its compliance with this requirement as soon as compliance is complete.
5. The Company shall show the interim rate increase on customer bills as a single line item.
6. The Company shall keep such records of sales and collections under interim rates as will be necessary to calculate a potential refund within 120 days of the Commission's final Order in this case.
7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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